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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 10/10/08

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1) Japan to propose at G-7 use of foreign reserves for IMF emergency loans to rapidly emerging countries

NIKKEI (Top Play) (Excerpts)
October 10, 2008

The government will call on the International Monetary Fund (IMF) to establish an emergency lending program that taps the vast foreign currency reserves of Japan and other cash-rich countries to help emerging countries reeling from domestic financial turmoil. The aim is to contain the global financial crisis with the consolidation of a framework for international financial assistance to countries that need a large amount of fiscal funds to pump public money into their domestic financial institutions. Finance Minister and State Minister for Financial Policy Shoichi Nakagawa is to make the proposal at a meeting of the Group of Seven (G-7) finance ministers and central bankers to be held in Washington on October 10. He will also urge China and oil-producing Middle Eastern countries with ample foreign reserves to come on board.

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As the U.S. financial crisis spreads to Europe and emerging countries, a batch of smaller countries are being forced to bail out financial institutions that have assets that dwarf government coffers.

Iceland, which has nationalized major domestic banks because of the financial meltdown, declaring an emergency situation, is a typical example of such a case. Its largest bank has assets that are six times Iceland's GDP, which stands at approximately 1.2 trillion yen. The second largest bank's assets are 3.7 times Iceland's economy. Since that nation needs massive funds beyond its economic capability, it is now undergoing talks with Russia to borrow approximately 550 billion yen. The Icelandic government has decided to guarantee all the deposits and bonds held by six domestic banks. The challenge now is to secure funds to finance the plan.

Though the IMF allows member nations emergency access to funds equivalent to their contribution amounts, there is likely to be an increase in countries seeking way more than what they give.

Japan's proposal would lend funds beyond the usual amount to small- and medium-size countries, whose management of the state could face a serious setback with their fiscal funds depleted due to the injection of massive amounts of money into financial institutions. G-7 members, such as the U.S. and European countries, will not be eligible for this assistance scheme.

The envisaged facility would be set up by the IMF, which would ask borrower nations to submit a financial restructuring plan, including drastic measures to clean up bad loans. Financing would be extended upon approval of the IMF board.

The emergency financing is to be funded by the approximately 200 billion yen reserved for assistance to IMF member nations as well as from loans provided, where necessary, by Japan and other countries from their foreign currency reserves. Nakagawa will propose this government plan at such venues as the G-7 and IMF-related meetings. He will also seek cooperation from China and Middle Eastern oil nations.

2) U.S. envoy welcomes refueling extension

ASAHI (Page 4) (Full)
October 10, 2008

The Diet is now expected to pass a government-introduced bill amending a refueling assistance special measures law to extend the Maritime Self-Defense Force's refueling activities in the Indian Ocean. "We greatly welcome it," U.S. Ambassador to Japan Schieffer told the press, including the Asahi Shimbun, in an interview yesterday. "It may be difficult to dispatch troops (Self-Defense Forces) under the Constitution," Schieffer said. "But," he added, "we hope Japan will do something in Afghanistan, in addition to the activities in the Indian Ocean." With this, he expressed hope that Japan would take measures, including financial aid, to help stabilize Afghanistan.

3) Refueling still important: U.S. commander

NIKKEI (Page 2) (Full)
October 10, 2008

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Defense Minister Yasukazu Hamada met with U.S. Pacific Command (PACOM) Commander Keating yesterday evening at the Defense Ministry. In the meeting, Keating requested Japan continue the Maritime Self-Defense Force's current refueling activities in the Indian Ocean. "It's still very important," Keating said. "We hope Japan will continue the activities," he added. Hamada said, "I want to make efforts so this can obtain Diet and public endorsement." Takashi Saito, chief of the Self-Defense Forces' Joint Staff Office, was also present at the meeting.

4) U.S. unofficially asks Japan for aid to mainland Afghanistan, eyeing funds for training troops, medical services

YOMIURI (Page 1) (Full)
October 10, 2008

The U.S. government has sounded out the Japanese government for financial assistance to improve Afghan troops' capabilities, extensive medical services, including the dispatch of doctors, and for aid to Provisional Reconstruction Team (PRT), according to government sources yesterday.

U.S. Deputy Assistant Secretary of Defense Bobby Wilkes informed Japan of the U.S. government's request for Japan's contributions in the war against terror in Afghanistan when he visited Japan in late July. Japan has reserved consideration of the possibility, citing the need to make utmost efforts for domestic coordination to continue the Maritime Self-Defense Force's refueling mission in the Indian Ocean.

According to the sources, the U.S. believes that the number of Afghan troops should be increased to about 130,000 to stabilize the security situation in the nation. Estimating that nearly 2 trillion yen would be needed to cover the troops' salaries and training expenses, as well as to improve their equipment, the U.S. conveyed to its allies its intention to ask them for more financial contributions.

The planned medical assistance would cover entire Afghanistan, and the U.S. expects Japan to dispatch doctors and help improve medical facilities, such as hospitals. The bolstered medical services are believed to also cover the treatment of sick and injured soldiers of the International Security Assistance Force (ISAF). The Japanese government has already provided financial aid to some of the PRT. The U.S. government apparently hopes for Japan to make larger contributions to this program.

5) Government worried over U.S. request for extra aid in Afghanistan, given the fiscal constraints

YOMIURI (Page 2) (Excerpts)
October 10, 2008

The Japanese government is worried over what its contribution should be to fight the war on terror in Afghanistan. Although the U.S. government has unofficially asked Japan for extra contributions to

that country, Japan cannot easily reach a decision, for it faces a number of problems such as making legal preparations, the security situation in that country, and Japan's severe fiscal situation.

Chief Cabinet Secretary Kawamura said in a press conference yesterday: "It is true that the international community, including

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the U.S., hopes Japan will make more contributions to ongoing efforts in Afghanistan," adding: "The U.S. is aware that Japan should make a decision to provide assistance on its own."

Japan has joined the war against terror in Afghanistan by offering refueling service by the Maritime Self-Defense Force in the Indian Ocean. To continue the service, it is necessary to get a bill amending the New Antiterrorism Special Measures Law through the Diet. Prospects are now in sight to enact the bill, as the Democratic Party of Japan, which gives priority to dissolving the House of Representatives, has taken a cooperative stance about the bill. A Foreign Ministry source said: "The refueling operation is safer and cheaper than personnel contributions on the ground of Afghanistan."

In Afghanistan, however, a fight is intensifying between the Taliban and the multinational force and the International Security Assistance Force (ISAF), which are participating in Operation Enduring Freedom (OEF). When many countries have decided to send more troops to that nation, calls are growing for Japan to make contributions on the ground of the nation.

Keeping such voices in mind, the Japanese government once looked into dispatching helicopters possessed by the Self-Defense Force to Afghanistan, but it had to give it up in the end because new legislation is needed to do so. Taking such circumstances of Japan into consideration, the U.S. has sounded out Japan on cooperation centering on financial aid as its possible contribution.

6) Legislation to extend refueling mission until Jan. 2022 likely to pass Diet on Oct. 24, at earliest

SANKEI (Page 2) (Excerpts)
October 10, 2008

A bill amending the New Antiterrorism Special Measures Law is likely to pass the Diet later this month. The bill is designed to extend the ongoing Maritime Self-Defense Force's refueling mission in the Indian Ocean beyond its January expiration. This development followed a suggestion yesterday by the Democratic Party of Japan (DPJ), which is opposed to the bill, to put the bill to the vote in a meeting of the House of Representatives Special Committee on Oct. 20. The bill will be voted down in the opposition-controlled House of Councillors but will be reinstated by a two-thirds lower chamber overriding vote on the 24th, at the earliest.

The legislation will make it possible for Japan to continue the refueling operation, which Japan has labeled as its main contribution in the war on terror, until January in 2022.

The Lower House Antiterrorism Special Committee decided in its executive meeting yesterday to hold a session for explanations about the rationalization for the government-sponsored bill and a counterproposal by the DPJ today and deliberations on the bill on the 17th and the 20th. The DPJ proposed in the meeting taking a vote on the 20th. The bill is likely to be approved by a majority from the ruling camp and clear the Lower House on the 21st.

The DPJ intends to vote the bill after few days of deliberations in the House of Councillors. After it is voted down in the Upper House on the 24th, at the earliest, the bill will be enacted by an override vote in a Lower House plenary session the same day.

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The refueling service was suspended last November but was resumed in

February as the New Antiterrorism Special Measures Law was enacted by a revote in the Lower House this January with approval from the ruling camp. The said law is to expire on Jan. 15.

7) U.S. sounds Japan out on delisting of North Korea as state sponsor of terrorism

MAINICHI (Page 2) (Full)
October 10, 2008

It has been learned that U.S. special envoy to the six-party talks Sung Kim informally sounded Japan in his meeting on Oct. 8 with Foreign Ministry Asian and Oceanian Affairs Bureau Director General Akitaka Saiki Japan on the U.S. policy of delisting North Korea as a state sponsor of terrorism if the United States and North Korea agreed on the framework of verification of North Korea's nuclear report. The Bush administration has been motivated to find a breakthrough in the deadlocked situation in order to produce achievements on the U.S.-DPRK negotiations at its final stage prior to the presidential election in November.

In the meeting on Oct. 8, special envoy Kim briefed Saiki on the details of the framework of verification discussed between Washington and Pyongyang. Saiki elaborated yesterday to Prime Minister Taro Aso. After closely studying the contents, the Japanese government plans to discuss anew with the United States and South Korea.

8) Delisting not ready yet: U.S. envoy

YOMIURI (Page 2) (Full)
October 10, 2008

Satoshi Ogawa

WASHINGTON-Sung Kim, the U.S. Department of State's special envoy for the six-party talks over North Korea's nuclear programs, told reporters yesterday at an airport in the suburbs of Washington that the U.S. government has yet to decide whether to delist North Korea as a state sponsor of terrorism. "We haven't made that decision yet," Kim said. With this, he clearly denied some news reports saying the U.S. government has told the Japanese and South Korean governments that the United States would delist North Korea this month. Kim returned home after briefing the Japanese and South Korean governments on the results of the recent visit to North Korea of Assistant Secretary of State Christopher Hill, chief U.S. delegate to the six-party talks.

The Foreign Ministry's Asian and Oceanian Affairs Bureau Director General Akitaka Saito, who represents the Japanese government at the six-party talks, reported to Prime Minister Aso yesterday at his office that the United States and North Korea have basically concurred on procedures to verify North Korea's nuclear declaration. The Japanese government will remind the U.S. government of Japan's standpoint. "There's also a question mark about the agreement," a government source said.

9) Abduction issue: Sense of frustration in government; Sanctions to be extended against North Korea

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ASAHI (Page 4) (Full)
October 10, 2008

The government will decide in a cabinet meeting today to extend by six months its sanctions against North Korea, which will expire on Oct. 13. While the expectation is strong that the United States will delist North Korea as a state sponsor of terrorism, Japan has no choice but to deal with the abduction issue by using its independent sanctions against Pyongyang. Given that, a sense of impasse has emerged in the government.

Tokyo invoked its sanctions on Pyongyang on October 2006, extending three times so far. The extension this time around is the fourth one. Japan has banned the freighter Man Gyong Bong from entering Japanese

ports, as well as imports from the North

Japan and North Korea agreed in a working-level meeting of their foreign ministries in August that Japan would resume the travel of people between the two countries and the entry of chartered planes if the North set up an abduction investigation panel. Following the abrupt resignation of then Prime Minister Yasuo Fukuda, North Korea informed Tokyo of its decision to forgo the setting up of an investigation panel. The government of Prime Minister Taro Aso asked last week the North Korean side to fulfill its promise through its embassy in Beijing, but it has not yet received any response.

Meanwhile, U.S. Assistant Secretary of State Christopher Hill visited Pyongyang last week and he and his North Korean counterpart seem to have reached a certain agreement. If the United States removes North Korea from its list of state sponsors of terrorism, Japan will lose a diplomatic bargaining card to use in negotiations with Pyongyang.

10) Poll: 58 PERCENT willing to let DPJ take office, but 47 PERCENT see DPJ as lacking competence to run country

YOMIURI (Page 2) (Full)
October 10, 2008

According to the Yomiuri Shimbun's Oct. 4-5 face-to-face nationwide public opinion survey, 58 PERCENT were affirmative and 38 PERCENT negative when respondents were asked if they thought it would be all right to let the leading opposition Democratic Party of Japan (Minshuto) run the government at least once. In the survey, respondents were also asked about the governing competence of political parties. In response to this question, a total of 67 PERCENT answered "yes" for the ruling Liberal Democratic Party. When it came to the DPJ, however, public opinion was almost split, with "yes" at 46 PERCENT and "no" at 47 PERCENT. The figures show the current mood among voters accepting a change of government between the ruling and opposition parties, irrespective of whether or not the DPJ is competent to take office.

When asked if it is all right to leave the reins of government to the DPJ, affirmative answers accounted for a majority among men, women, and all age groups. Among DPJ supporters, "yes" reached 95 PERCENT. Among floating voters with no particular party affiliation, "yes" accounted for 61 PERCENT. Even among LDP supporters, 38 PERCENT were affirmative.

However, the floating voters were also split about the DPJ's governing competence, with "yes" accounting for 46 PERCENT and "no"

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at 44 PERCENT. Among those who said it is all right to leave the reins of government to the DPJ, 66 PERCENT answered "yes" to the question asking if the DPJ is competent to take office, with 29 PERCENT saying "no." In the survey, respondents were also asked to give their impressions of Prime Minister Aso and DPJ President Ozawa. To this question, a "good impression" of the prime minister accounted for 57 PERCENT, with a "bad impression" at 36 PERCENT. The "good impression" of Ozawa was at 35 PERCENT, and the "bad impression" at 59 PERCENT. Even among those thinking it is all right to leave the reins of government to the DPJ, the "good impression" of Ozawa was at 49 PERCENT, with the "bad impression" at 45 PERCENT.

The survey was conducted with a total of 3,000 persons chosen from among the nation's voting population. Answers were obtained from 1,787 persons (59.6 PERCENT).

11) Prime Minister Aso laying groundwork for Lower House election

YOMIURI (Page 4) (Abridged slightly)
October 10, 2008

Prime Minister Taro Aso yesterday instructed the ruling coalition of the Liberal Democratic Party and New Komeito to draw up an additional economic stimulus package in response to the global financial crisis. He also is laying the groundwork for dissolving

the House of Representatives. In an attempt to appeal the government's efforts to the public, some ruling parties' members are saying that issuing deficit-covering government bonds is inevitable in order to compile a large-scale budget for the additional economic package.

It is extremely rare for a prime minister to issue such an instruction while the Diet is deliberating on a supplementary budget bill. Aso last night told the press corps at the Prime Minister's Official Residence:

"The (economic) situation has become severer. We are now in a situation to consider at least a pump-priming economic package and measures to extend financial help to small and midsize companies."

The ruling camp is motivated to use the additional economic stimulus package as a tool to win the next Lower House election, with one official saying: "We will be able to campaign in the general election under the slogan of the ruling coalition attaching priority to economic recovery." The ruling bloc's scenario is that the economic package would be compiled in October and that the Lower House would be dissolved for a snap election in mid-November.

Therefore, the ruling camp will now draw up a new economic package. The ruling camp's financial crisis taskforce plans to come up with highly-effective measures with an eye on the Lower House election. A person close to Aso said yesterday:

"The extra budget, which is now being deliberated on at the Diet, was drawn up by the Fukuda administration. We would like to show Aso's political identity in the planned additional economic stimulus package."

Regarding fixed amount income and residential tax cuts, which have been decided to implement before the end of this fiscal year, the amount of tax cuts per capita will be hammered out in the future.

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The New Komeito, which has strongly called for the implementation of the fixed amount tax cuts, has envisaged a 2 trillion scale tax cut. The additional economic package would include a further cut in expressway tolls, and tax reductions in housing loans and business investment.

A senior LDP official said: "With the election drawing closer, we should not be stingy." Therefore, it is certain that the scale of the second extra budget will exceed 2 trillion yen. There is a view in the New Komeito that to cover the fixed amount tax cuts and tax reduction in housing loans, a 10 trillion yen scale extra budget should be drawn up to.

12) Will expected October Diet dissolution be put off? Ruling camp to boil down date after supplementary budget passed, but end of the year timing could hurt economy

TOKYO SHIMBUN (Page 2) (Excerpts)
October 10, 2008

With the heightening possibility of the economy slipping into recession, the timing of dissolving the Lower House for a snap election is becoming unclear. Prime Minister Aso has stressed that the state of the economy takes precedent over Diet dissolution, and calls are rising within the Liberal Democratic Party (LDP) for putting it off until the end of the year or the beginning of next year. However, when consideration is given to such factors as the compilation of the fiscal 2009 budget bill, there are some problems with and end of year, beginning of next year scenario for Diet dissolution. What choice will the Prime Minister take? We flip through the pages of a calendar leading the Lower House election that remains elusive.

Deliberations in the Upper House Budget Committee on the fiscal 2008 supplementary budget, which the Prime Minister has positioned as his top priority item, began yesterday. The budget bill is expected to pass the Diet on Oct. 16.

On the other hand, the Prime Minister on Oct. 9 ordered the ruling camp to come up with additional measures to stimulate the economy. The outline of the new package is likely to be readied after the 20th. With this, the goal of dissolving the Lower House immediately after passing the supplementary budget has disappeared.

Passage of the bill amending the New Anti-Terrorism Special Measures Law that would continue the oil refueling operations in the Indian Ocean is expected late this month. If this bill, too, is considered, the Prime Minister's range of options for October dissolution has narrowed greatly.

LDP Secretary General Hiroyuki Hosoda and New Komeito Secretary General Kazuo Kitagawa yesterday morning instructed the Diet Affairs Committee chairmen of the parties to aim at entering deliberation on bills related to creating a consumers affairs agency immediately after the refueling mission bill is passed. Since the Diet schedule after the ruling camp passes the supplementary budget is becoming filled with one bill after another, the timing of Diet dissolution is being put off, creating much speculation about what lies ahead.

There is a strong view that if the second supplementary budget is presented to the Diet, it will likely be in early November at the earliest. In case Diet dissolution is postponed that far, the

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opposition camp will definitely react sharply. If consideration is given to deliberations in the Upper House, it is questionable whether the bill could be passed by the 30th of November, when the session ends.

If the Prime Minister decides to dissolve the Diet after that, tackling tax reform in December and compiling the fiscal 2009 national budget draft will have to be put off until early next year.

Some lawmakers in the LDP are calling for dissolving the Diet at the start of the regular Diet session in January, but in this case, it would become impossible to pass the fiscal 2009 budget before the end of the fiscal year (end of March). This kind of concern surfaced in meetings of the party faction on the 9th.

Since dissolution at the end of the year or beginning of next year would encounter such kinds of obstacles, the date of the Lower House election, according to former Finance Minister Ibuki, would create for the legislature turmoil in the economy unless it is set before mid November or after April next year.

13) Government puts on hold plan to restrict foreign investment in airport operating companies

MAINICHI (Page 1) (Full)
October 10, 2008

The government's study council on restricting the operations of airport-related companies (chaired by Chuo University Law School Professor Seiichi Ochiai) on October 9 reached agreement that restrictions on airport-operating companies should be premised on the principle of non-discrimination between domestic and foreign companies. Vice Transport Minister Ken Haruta indicated his ministry's stance of respecting this perception of the panel, saying, "We take the panel's decision seriously."

A prevailing view heard during discussions by the panel was that both domestic and foreign investors are negative toward the idea of only regulating foreign investors. As such, the panel will now likely focus discussions on "large-lot restrictions," or setting a cap on the number of shares one investor can purchase whether domestic or foreign. Discussions also will include "conduct restrictions," in which cooperation would be sought to prevent terrorism and hijacks. The Transport Ministry plans to draft a restriction plan, based on the decision reached by the panel and submit a bill amending the Airport Law to the regular Diet session next year.

Narita International Airport Corporation will soon to join the stock

market. An Australian investment bank last fall took a 19.89 stake in Japan Airport Terminal Co., which controls and manages Haneda Airport. Such cases prompted the government to hold discussions to look into placing restrictions on foreign investment in airports. There has been a growing concern that a purchase of an airport by a foreign investor would damage national interests and cause security concerns.

For this reason, the Transport Ministry at first tried to incorporate a regulation designed to constrain foreign companies' investment ratio in airport-related companies below one-third. However, it gave up on the plan for the time being with both the

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ruling camp and some cabinet ministers citing that it is against the national strategy of boosting investment in Japan. An export panel was then established in August under the jurisdiction of the chief cabinet secretary and the transport minister. The panel has been discussing the way such restrictions should be set.

SCHIEFFER